

## Message Text

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PAGE 01 GENEVA 01465 01 OF 02 011251Z

ACTION EB-08

INFO OCT-01 IO-13 ISO-00 AF-08 ARA-06 EA-07 EUR-12 NEA-10

L-03 FRB-03 OMB-01 ITC-01 SP-02 USIA-06 AGRE-00

AID-05 CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 OIC-02

SIL-01 STR-04 TRSE-00 CEA-01 SS-15 NSC-05 H-01 PRS-01

PA-01 /128 W

-----011318 090755 /46

R 011041Z MAR 77

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TO SECSTATE WASHDC 5531

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LIMITED OFFICIAL USE SECTION 1 OF 2 GENEVA 1465

E.O. 11652: N/A

TAGS: UNCTAD

SUBJECT: UNCTAD - THIRD PREPARATORY MEETING OF THE COMMON FUND

1. BEGIN SUMMARY: DISCUSSION IN COMMITTEE OF THE WHOLE FEBRUARY 24-26 WAS LARGELY A REPLAY OF EARLIER DISCUSSIONS IN THE FIRST AND SECOND PREPARATORY MEETINGS WITH BASIC POSITIONS OF GROUP OF 77 AND GROUPS B AND D ESSENTIALLY UNCHANGED. DEBATE AGAIN REVEALED THE FINANCIAL NON-VIABILITY OF THE G-77 VERSION OF A COMMON FUND (CF). GROUP B SET UP TWO WORKING GROUPS ON: (1) THE FINANCING OF OTHER MEASURES THAN BUFFER STOCKS AND (2) FINANCIAL REQUIREMENTS AND STRUCTURE OF A COMMON FUND. A COMPROMISE ON THE PLENIPOTENTIARY ISSUE IS LIKELY TO RESULT TODAY PROVIDING FOR A REFERENCE TO SIGNATURE OF AN AGREEMENT IN THE AGENDA WITH AN EXPLANATORY FOOTNOTE BUT NO REFERENCE TO PLENIPOTENTIARY CONFERENCE IN THE TITLE CONTAINED IN THE AGENDA, AND WILL POSSIBLY BE ACCOMPANIED BY A GROUP B STATEMENT. END SUMMARY.

2. IN INTRODUCING THE G-77 PRELIMINARY POSITION PAPER

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PAGE 02 GENEVA 01465 01 OF 02 011251Z

TABLED FEB 24, G-77 SPOKESMAN (ALATAS) REITERATED HIS GROUP'S VIEWS THAT FUNDAMENTAL AIM OF CF WAS TO ATTAIN THE OBJECTIVES OF INTEGRATED PROGRAM (IPC), THAT THE FUND WAS THE INTEGRATING ELEMENT OF THE IPC, AND THAT IT SHOULD CONSTITUTE THE PRIMARY SOURCE OF FINANCE. ALATAS POINTED TO LACK OF CONTRIBUTIONS BY MAJOR CONSUMERS IN TIN AGREEMENT AS JUSTIFICATION

FOR CG AS CENTRAL SOURCE OF FINANCE. HE ADDED THAT G-77 COULD NOT ENVISAGE INDIVIDUAL COMMODITY AGREEMENTS LENDING TO OTHER AGREEMENTS AND COULD NOT ACCEPT A POOLING ARRANGEMENT WHICH WOULD DEPEND ON PRODUCERS AND CONSUMERS PROVIDING MAJOR SOURCES OF FINANCE FOR COMMODITY AGREEMENTS.

3. GROUP B SPOKESMAN (BARRASS, UK) RESPONDED THAT GROUP B CONTINUED TO VIEW A CF AS ONLY A SUBSIDIARY FINANCIAL MECHANISM AND ONLY ONE OF MANY INSTRUMENTS TO IMPLEMENT THE IPC. THE INDIVIDUAL COMMODITY COUNCILS WOULD BE THE BUILDING BLOCKS OF THE IPC AND IF THE SOURCE OF FUNDS WERE DIVORCED FROM THESE AGREEMENTS, RESOURCES WOULD BE WASTED AND UNNECESSARY PROJECTS UNDERTAKEN.

4. ON OTHER MEASURES SUCH AS DIVERSIFICATION, R AND D, ETC., BARRASS AGAIN ASKED FOR CLARIFICATION ON THE PURPOSES, EXPENDITURE AND TYPE OF PROJECTS G-77 HAD KN MIND. GROUP D (SOCIALIST COUNTRIES) ALSO REITERATED EARLIER VIEWS THAT A CF ULD NOT FINANCE ALL MEASURES IN RESOLUTION 93(IV) AND QUESTIONED THE EXTENT TO WHICH A CF SHOULD UNDERTAKE SUCH FINANCING.

5. AMB. ALATAS RESPONDED THAT EXTENT OF FINANCING OTHER MEASURES WOULD BE DECIDED IN INDIVIDUAL COMMODITY NEGOTIATIONS. HE ALSO REFERRED TO GROUP B INSISTENCE IN INDIVIDUAL COMMODITY PREPARATORY MEETINGS THAT BUFFER STOCKS BE ACCOMPANIED BY SUCH MEASURES AS DIVERSIFICATION LIMITED OFFICIAL USE

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PAGE 03 GENEVA 01465 01 OF 02 011251Z

AND PRODUCTIVITY IMPROVEMENT. IN HIS VIEW CF WOULD BE BEST WAY TO MEET REQUIREMENTS FOR OTHER MEASURES IN AN INTEGRATED, CO-ORDINATED FASHION. HE ALSO STATED THAT NO EXISTING INTERNATIONAL FINANCIAL INSTITUTION DEALT ADEQUATELY WITH FINANCING SUCH OTHER MEASURES WHICH WOULD CONTRIBUTE TO STABILIZATION OF COMMODITY TRADE.

6. GROUP B REPEATED EARLIER POSITION THAT IT COULD NEVER ACCEPT A CF FINANCING OTHER MEASURES OR INTERVENING DIRECTLY IN COMMODITY MARKETS AT THE REQUEST OF A GROUP OF PRODUCERS WHERE NO COMMODITY AGREEMENT EXISTS. A CF COULD ONLY BE CONSIDERED TO FACILITATE THE FINANCING OF STOCKING AGREEMENTS BETWEEN PRODUCERS AND CONSUMERS.

7. ON MODES OF OPERATION, BARRASS RESPONDED TO LANGUAGE IN THE G-77 POSITION PAPER INTENDED TO PROTECT THROUGH REMEDIAL MEASURES THE INTEREST OF DEVELOPING IMPORTING COUNTRIES ADVERSELY AFFECTED BY IMPLEMENTATION

OF THE IPC, STATING THAT GROUP B CONSIDERED THE AIM OF THE IPC TO BE TO STABILIZE TRADE, THUS IMPROVING THE POSITION OF EVERY COUNTRY WITH REGARD TO IMPORTS AND EXPORTS. HE ALSO NOTED THAT WHILE GROUP B WAS IN COMPLETE AGREEMENT WITH G-77 THAT CF SHOULD BE A FINANCIALLY VIABLE INSTITUTION, HE QUESTIONED WHETHER THAT WAS POSSIBLE IF A CF WERE TO SET INTEREST RATES AS LOW AS POSSIBLE AND TRANSFER MONEY TO A SECOND ACCOUNT FOR FINANCING OTHER MEASURES, AS STATED IN THE G-77 PAPER.

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PAGE 01 GENEVA 01465 02 OF 02 011253Z  
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LIMITED OFFICIAL USE SECTION 2 OF 2 GENEVA 1465

8. ON DECISION-MAKING AND FUND MANAGEMENT, AMB. ALATAS REFERRED TO RECENT TREND IN INTERNATIONAL INSTITUTIONS SUCH AS IFAD TOWARD INCREASING PROPORTION OF VOTES ASSIGNED ON EQUALITY PRINCIPLE. HE REPEATED EARLIER G-77 POSITION THAT DISTRIBUTION OF VOTES ON CG SHOULD GIVE LDGS A DECISIVE ROLE IN DECISION-MAKING AND MANAGEMENT. BARRASS STATED GROUP B FAVORED TRADITIONAL DIVISION OF VOTES BETWEEN PRODUCERS AND CONSUMERS AND COULD NOT ACCEPT ANY SINGLE GROUP HAVING A DECISIVE SAY. GROUP B WOULD WANT A CLOSE RELATIONSHIP BETWEEN CONTRIBUTIONS AND VOTING RIGHTS,

9. (ALTHOUGH MOST POINTS MADE IN THE DISCUSSION WERE REPEATS OF THE FIRST TWO PREPARATORY MEETINGS, FURTHER QUESTIONS WERE RAISED AS TO THE FINANCIAL VIABILITY OF THE G-77 VERSION OF THE CF. THESE QUESTIONS CROPPED UP

REPEATEDLY IN DISCUSSING FUNCTIONS OF FINANCING OTHER MEASURES, INTERVENING IN MARKETS IN EMERGENCY SITUATIONS WHERE NO AGREEMENT EXISTS, AND IN PROVIDING LOANS AT CONCESSIONAL RATES OF INTEREST. WORK IN THE GROUP B FINANCIAL WORKING GROUP WILL CONTINUE TO FORMULATE LIMITED OFFICIAL USE

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PAGE 02 GENEVA 01465 02 OF 02 011253Z

QUESTION ABOUT THESE AND OTHER STRUCTURAL WEAKNESSES IN THE G-77 CF PROPOSAL.)

10. GROUP B HAS ESTABLISHED WORKING GROUPS ON (1) THE OVERALL FINANCIAL REQUIREMENTS AND STRUCTURE OF A CF AND (2) FUNDING OF OTHER MEASURES SUCH AS DIVERSIFICATION, R AND D, ETC. THE PURPOSE OF THE GROUPS IS TO DEVELOP DETAILED LINES OF QUESTIONING AND POSSIBLE TECHNICAL PAPERS ON ISSUES RAISED BY COMMON FUNDING FOR USE DURING EARLY STAGES OF THE CONFERENCE.

11. THE WORKING GROUP OF FINANCIAL ISSUES REVEALED DIVERGENCE OF VIEWS ON WHETHER TO FOCUS STUDY ON THE CAPITAL STRUCTURE OF UNCTAD PROPOSAL OR MORE BASIC ISSUES SUCH AS BUFFER STOCK FINANCING. PARTICIPANTS AGREED TO STUDY AND POSSIBLY PREPARE SHORT PAPERS ON THE FOLLOWING ISSUES:

(A) ATTRIBUTES OF A CF TO MEET REQUIREMENTS OF BUFFER STOCK MANAGERS WITH PARTICULAR REFERENCE TO EXPERIENCE OF TIN AGREEMENT (UK, AUSTRALIA).

(B) IMPLICATIONS OF DIRECT GOVERNMENT CONTRIBUTIONS TO A CF RATHER THAN TO INDIVIDUAL STOCKS (UK, AUSTRALIA).

(C) APPLICABILITY OF CALLABLE CAPITAL (CANADA).

(D) RELATIONSHIP BETWEEN CONTRIBUTIONS TO A CF AND NEGOTIATION OF INDIVIDUAL AGREEMENTS (SWEDEN).

(E) EFFECT OF SPECULATION ON FINANCIAL REQUIREMENTS OF A CF (JAPAN).

12. US REPS ALSO INDICATED WE WOULD LOOK AT BASIC ASSUMPTIONS ON PRICE RANGE, STOCK HOLDING ACQUISITION COSTS, ETC., UNDERLYING UNCTAD ESTIMATES ON LEVEL AND LIMITED OFFICIAL USE

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PAGE 03 GENEVA 01465 02 OF 02 011253Z

PHASING OF CF FINANCIAL REQUIREMENTS WHICH WERE PRESENTED

IN TD/B/IPC/CF/L2 AT LAST PREPARATORY MEETING.

13. GROUP B ALSO FORMED WORKING GROUP TO EXAMINE ISSUE OF WHETHER CF SHOULD FINANCE "OTHER MEASURES", SUCH AS DIVERSIFICATION, R AND D, ETC. GROUP WILL (1) EVALUATE FACTUAL VALIDITY OF G-77 ARGUMENTS THAT IBRD/REGIONAL BANKS LACK OVERALL COMMODITY APPROACH IN THEIR PROJECT FINANCING, (2) EXAMINE DESIRABILITY OF CF FINANCING OF SUCH OTHER MEASURES WITHIN OR WITHOUT THE FRAMEWORK OF INTERNATIONAL COMMODITY AGREEMENTS (AS PROPOSED BY UNCTAD). AS PART OF THIS WORK PROGRAM, US WAS ASKED TO PREPARE REPORT ON IBRD LENDING POLICIES (REFTEL GENEVA 1439).

14. RE LEVEL OF REPRESENTATION AT THE CONFERENCE, THE HEADS OF DELEGATION FOR FRANCE, FRG, BELGIUM, SWITZERLAND, NORWAY AND AUSTRALIA AT PREPARATORY MEETING WILL ALSO LEAD CONFERENCE DELEGATION. THIS ROUGHLY THE OFFICE DIRECTOR LEVEL OR GENEVA MISSION REPRESENTATIVES (AUSTRALIA--TEESE, NEW ZEALAND, PER REP). CANADA, SPAIN AND SCANDINAVIAN COUNTRIES WILL BE REPRESENTED AT DEPUTY ASSISTANT SECRETARY-EQUIVALENT LEVEL. OUR IMPRESSION IS THAT -- GIVEN THE UNLIKELYHOOD OF A CONCRETE OUTCOME -- MOST DELS SEEK TO DOWNPLAY THE MEETING IN TERMS OF LEVEL OF REPRESENTATION.

15. PLENIPOTENTIARY ISSUE WILL COME UP TODAY. A COMPROMISE HAS BEEN WORKED OUT IN THE PRESIDENT'S CONTACT GROUP WHICH WOULD LEAVE ITEM 12 ON THE AGENDA, QUOTE SIGNATURE OF THE AGREEMENT ON A COMMON FUND UNQUOTE, BUT TAKE OUT ANY REFERENCE TO PLENI-POTENTIARY IN THE TITLE OF THE CONFERENCE. IN ADDITION ITEM 12 WOULD HAVE EXPLANATORY FOOTNOTE THAT IN THE EVENT OF AGREEMENT, GOVERNMENTS WISHING TO SIGN SHOULD ISSUE THEIR REPRESENTATIVES FULL POWERS TO DO SO. US LIMITED OFFICIAL USE

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PAGE 04 GENEVA 01465 02 OF 02 011253Z

WILL SEEK GROUP B STATEMENT TO EFFECT THAT WE ARE NOT COMMITTED TO ANY PARTICULAR SUBSTANTIVE OUTCOME OF THE NEGOTIATING CONFERENCE OR TO THE SIGNATURE OF AN AGREEMENT. CATTO

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## Message Attributes

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